

Maryland Tax Revision Commission

(Act of 1922, Chapter 427.)

Preliminary Report

of the

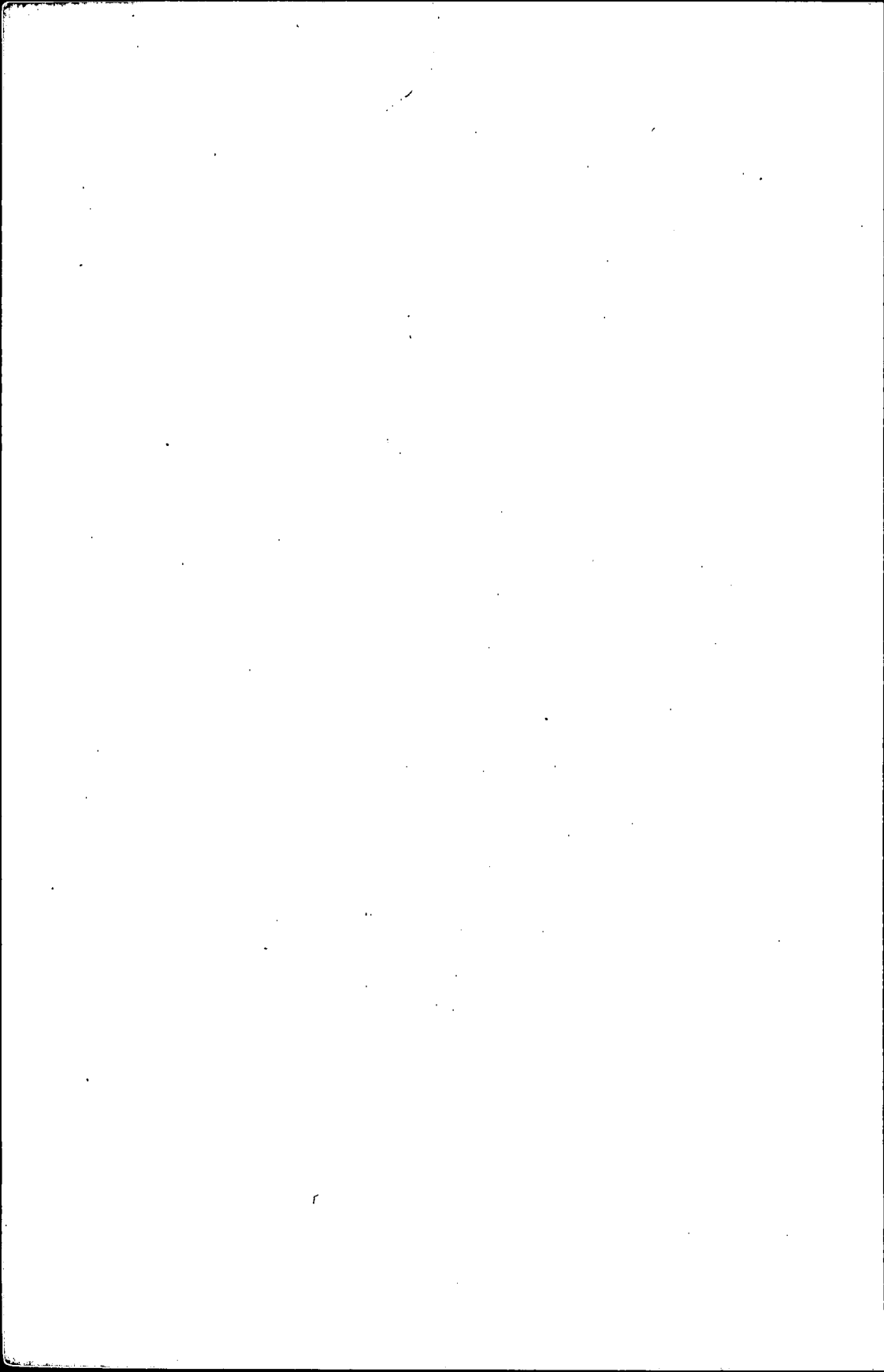
TAX REVISION COMMISSION

To His Excellency, ALBERT C. RITCHIE,

Governor of Maryland



APRIL 30, 1923



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(Act of 1922, Chapter 427.)

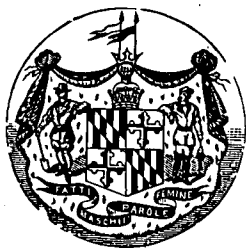
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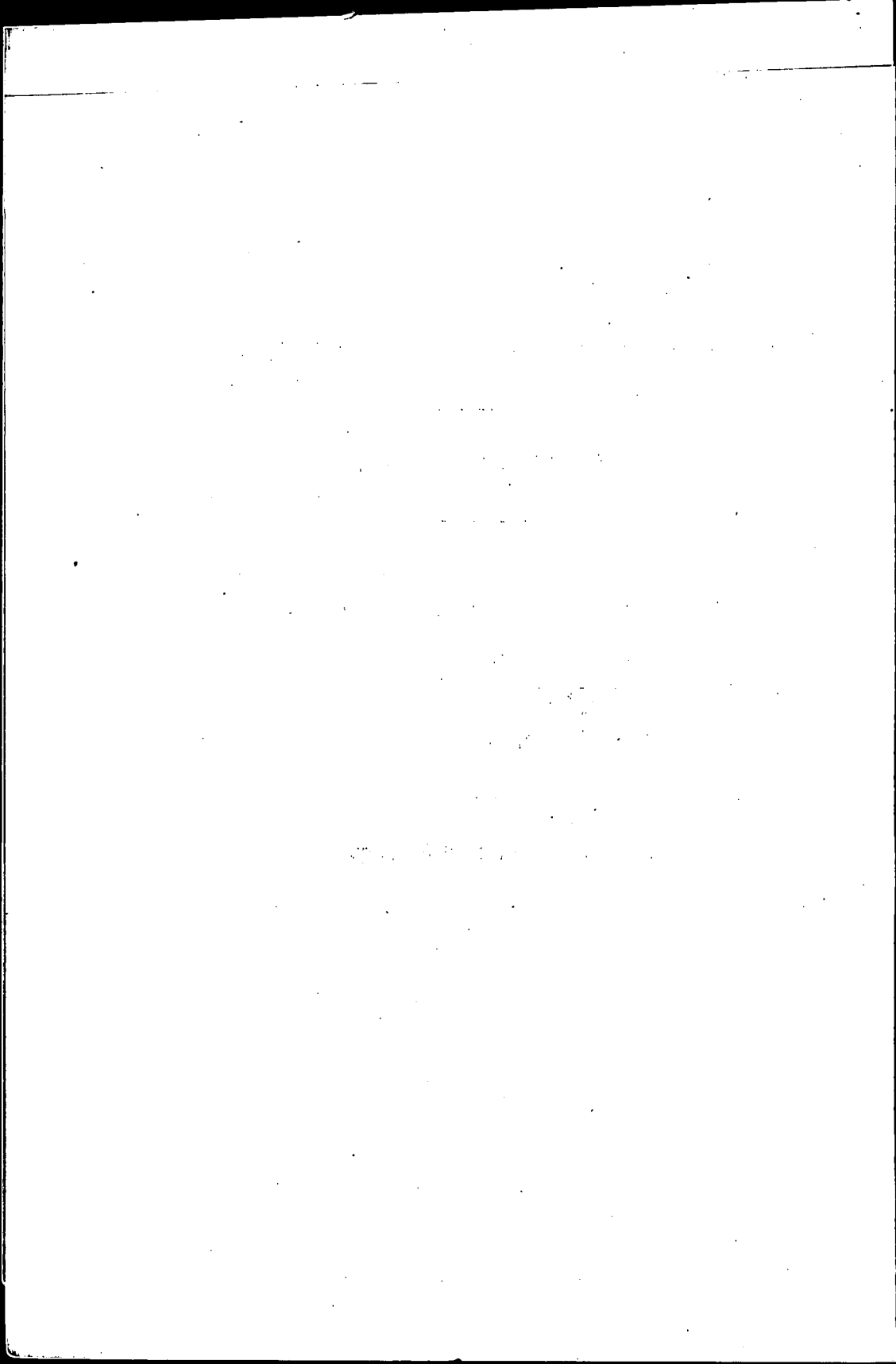
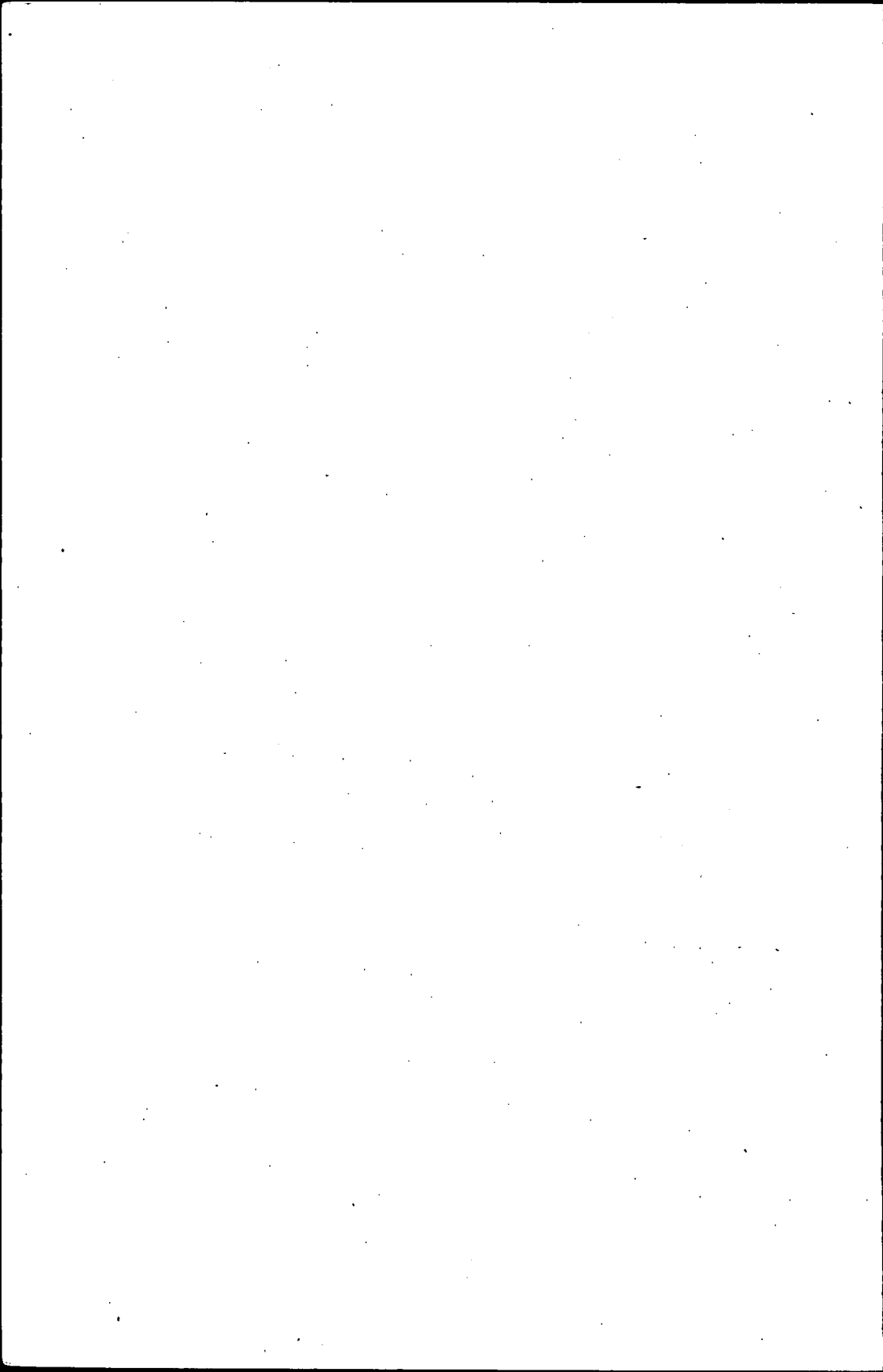


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MARYLAND TAX REVISION COMMISSION.

Preliminary Report

of the Tax Revision Commission to His

Excellency, Albert C. Ritchie,

Governor of Maryland.

April 30, 1923.

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ALBERT C. RITCHIE,

Governor of Maryland.

Sir:

At a meeting of the members of the Tax Revision Commission, held at its office, No. 710 Equitable Building, Baltimore, on Monday, April 30, 1923, at which were present:

Francis King Carey, Chairman;

William H. Maltbie, Vice-Chairman,

Frank Novak, and

George C. Smith

E. L. Burke, Acting Secretary

(all the members of the Commission, with the exception of J. Augustine Mason, who was absent on account of illness), the Chairman was instructed to make the following preliminary report to your Excellency:

I.

The Act of 1922, Chapter 427.

The Act of 1922, Chapter 427, under which the Commission was formed and organized, requires the Commission to make a thorough investigation of the systems of State, County and Municipal taxation in force in the State of Maryland; to inquire into the systems in force in other States, especially in all such States as have introduced new methods or substantial changes, and to make a report to the Governor by December 1, 1923, for transmission by him to the next General Assembly "containing the draft of a general system of law providing for the imposition and collection of revenue charges and taxes in the State of Maryland." The Commission is authorized to appoint a secretary and to engage such experts and clerical or other assistants as may be required; and the Act provides that the expenses of the Commission shall be defrayed "out of such funds as may be provided for in the budget."

II.

No Provision Has Been Made for the Necessary Expenses of the Commission.

In your letters to the members of the Commission, advising them of their appointment, under date of November 22nd, 1922, you said:

"Unfortunately, no appropriation was made for the expenses of this Commission, so that any expenses incurred will have to be contingent upon an appropriation by the Legislature of 1924 to meet them. It is, of course, possible that the lack of an appropriation may render it impracticable for the

Commission to accomplish substantial results. Should this prove to be the case, the Commission could, I feel sure, at least make a report which would be the basis for securing from the next Legislature adequate provision for the work."

It is unnecessary to say that while all of your appointees, at your request, consented to serve as members of this Commission, they did so with the greatest hesitation and with the strong doubt as to their ability, without adequate resources, to render any real public service. This doubt has greatly increased, as the Commission has faced the magnitude and difficulty of the task which has been set for it by the General Assembly. Its members feel, therefore, that it is necessary that you should be advised, and through you the public, both of the efforts we are making to minimize the disadvantages under which we are working and of the improbability that we will feel at liberty to reach conclusions in our final report, which can safely or wisely be made the subject of final legislative action by the General Assembly of 1924.

The Act clearly contemplates the organization of an elaborate and necessarily expensive clerical and expert force, headed by a paid experienced Executive Secretary, for the purpose of making an exhaustive and reliable investigation of the entire taxing system of Maryland; and a comparison of the details of this system with those of other States of the Union. Such Commissions have been at work in many of the other States and their reports are before us; but they have usually had the benefit of substantial funds which have permitted them to examine into the complicated and difficult questions involved with highly trained and experienced clerical and expert forces, whose exhaustive and painstaking work has enabled the Commissions to

prepare and present in a sure-footed and highly intelligent manner useful and reliable reports which have laid the foundation of useful and reliable improvements in the taxing systems of such States.

As your Excellency advised us, none of the budget Acts of the last Legislature made any appropriation for the expenses of our Commission, and we are entirely without funds except such as the members of the Commission can provide "out of their own pockets." In a matter of this important character, requiring the sincerest State-wide impartiality, it goes without saying that we cannot accept or use funds other than State funds, which, for the reason given above, are not available. We feel also that it would not be either respectful or proper for us to involve the State in heavy expenses and look to the next Legislature for their payment. These facts are mentioned for the purpose of showing that our Commission is greatly handicapped in its investigations, and that too much cannot be expected of us in our final report. The members of the Commission are serving without pay and are doing everything they can to perform their duties intelligently within the limits which the above conditions prescribe to their work.

III.

Present Working Plan.

In order to make the best of the difficult conditions presented to it the Commission is now using the offices and the Secretary of the Chairman, and has asked for and received the warm co-operation of the public officials of the State and City, including the members and Secretary of the State Tax Commission, the Department of Legislative Reference, with its highly-trained and efficient Executive, Dr. Horace E. Flack—the offices

of the Comptroller and Treasurer of the State, and the Judges of the Appeal Tax Court of Baltimore. But it is hardly necessary to say that these officials, although they have responded in the most generous and co-operative way to any request we have made of them, are, most of them, busy men already closely occupied with their current public duties; and it would not be fair of us to impose upon them. We have, however, with their assistance and through efforts of our own, collected a large number of valuable reports and valuable statistical information from other States and from the records of the United States Government and are now engaged in digesting and recording this information.

IV.

The Sources of Tax Revenue in the State of Maryland.

As a necessary basis for any study of the taxing system of Maryland our Commission has thought it necessary that we should first have complete statistical information in regard to all the present sources of tax revenue in the State of Maryland, classified by counties, cities and towns, and subdivided according to the classes of property on which the tax is returned. The statistics already at our disposal, through the published reports of the State Departments, do not furnish this information, because the reports made to the State Tax Commission from the political units of the State do not in many cases separate real and personal property. As our Commission has no machinery whatever for collecting this information and no funds with which to organize such machinery, we have asked the State Tax Commission to obtain this information for us; and the State Tax Commission has very generously undertaken to obtain it and furnish it to us and is now engaged in this

work. This information when received will lay the foundation of our further study of the Maryland system. A number of suggestions have been brought to our attention by public officials, trade organizations, etc., and are being given respectful attention; and, as we have already publicly said, we gladly invite such suggestions. It will greatly facilitate our work if these suggestions, when possible, are made in writing.

V.

Reasons for Appointment of Commission.

The Act under which we were appointed gives no special indication of the purposes which the General Assembly had in view in passing it, but our Commission assumes that the Act was aimed at the same objects which have been aimed at and are sought to be fulfilled by the appointment of similar Commissions in other States. The Act was probably passed in response to a general feeling of unrest in regard to the present heavy burdens of taxation, which have been enormously added to by National requirements and by increased expenditures which have grown out of the war and the reconstruction period which has followed. It is perhaps possible to assume that there is abroad a general belief, whether well founded or not, that real estate is bearing an unfair burden of taxation and that no method has yet been devised for requiring a fair and uniform taxation of personal property, tangible and intangible. So far as our study of other States has gone there seems to be a growing sentiment—at least for the present—that all methods adopted for the direct taxation of personal property have failed to provide a fair and uniform method for requiring personal property to pay its proper proportionate share of Government expenses.

New York and Massachusetts, among the older and more conservative States; Wisconsin, in a class of the newer and so-called advanced States, and North Carolina in the South, which embrace the four States the taxing systems of which our Commission is endeavoring to study rather intensively, have all turned to a State income tax for a solution or partial solution of this problem, with what seems to be a tendency to abandon altogether the direct tax upon personal property and to substitute a small State tax on individual incomes.

VI.

The State Income Tax System.

It is claimed by the supporters of the State income tax system that it is the only fair and uniform method of taxing personal property, and that the net result of its adoption is to lessen the burdens upon real estate; and the claim is made that, while greatly increasing tax revenue, it does not add to and may reduce the tax burdens upon the individual who now makes a full return of his personal property for taxation. The State of New York is probably making the most exhaustive and intelligent study of its State tax system of any State in the Union. The "Special Joint Committee on Taxation and Retrenchment" appointed by the New York Legislature in 1919 has already made two elaborate reports, the findings of which have been supported by investigations of an extraordinarily exhaustive character, guided by a group of the most distinguished economic and taxation experts whose services money can buy, and their reports are before us. As an evidence of the radical changes which are now being considered throughout the United States it is only necessary to call attention to the fact that this distinguished New York Commission has already proposed that the direct tax-

ation of personal property in the State of New York should be entirely abandoned, and that as soon as possible all direct taxation on real estate for State purposes should also be abandoned. The adoption of the State income tax by the State of New York has already reduced the direct taxation on personal property to a negligible part of the tax revenue.

The following States have adopted the State Income Tax System:

<i>State</i>	<i>Exemption Single Person</i>	<i>Exemption Married Couple</i>	<i>Exemption for each Dependent</i>	<i>Rates of Tax.</i>
Delaware.	\$1,000	\$2,000	None	1%, 2%, 3%
Massachusetts ...	2,000	2,500	\$250	1½%, 3%, 6%
Mississippi.	2,500	2,500		½ of 1%
Missouri.	1,000	2,000	200	1½%
New York.	1,000	2,000	200	1%, 2%, 3%
North Carolina...	1,000	1,500		1%, 1½%, 2%, 2½%
North Dakota....	1,000	2,000	200	¼ of 1% to 10% on earned incomes; ½ of 1% to 10% on un-earned incomes
Oklahoma.	3,000	4,000	300 for each child under 18; 500 if in school	13/20 of 1%, 1½%, 2%
South Carolina...	1,000	2,000	200	Each person to pay an amount equal to 1/3 of the income tax paid to the U. S.
Virginia.	1,200	1,500	200	1%, 2%
Wisconsin.	800	1,200	200	1% to 6%
Proposed Model State Tax Law (see post X.)	600	1,200	200	1% to 6%

The mere suggestion of the growth of the policy in other States, including such conservative States as New York and Massachusetts, of resorting to a State income tax for the production of a large part of their tax revenue, will give the public some idea of the magnitude of the job which the State has given our Commission.

VII.

Baltimore City and the Counties.

It can be claimed that if it were possible and desirable to substitute a State income tax for the present complicated and ununiform method of taxing personal property, and the proceeds of the State income tax could be so divided between the State itself and its political units, as to avoid the necessity of a direct State tax on real estate, many, if not all, of the taxing problems which now divide the City of Baltimore and the Counties would disappear—because the tax revenues from real estate would be confined to the political units in which the real estate was situated; and the complication now arising from the taxation of personal property, tangible and intangible, would disappear. It is claimed by the friends of the State income tax that the successful establishment of the National income tax has removed many of the doubts and difficulties connected with the assessment and collection of a State income tax. That a State income tax where it is now in operation produces a large and certain revenue is perhaps beyond question. Its friends claim that the present method of collecting taxes on personal property, tangible and intangible, places an unfair burden on honorable taxpayers, and renders it altogether too easy for dishonest taxpayers to escape; but that is a generalization which may not be supported by facts.

VIII.

**Objections to the State Income Tax Suggested
by Its Opponents.**

The opponents of the State income tax claim that the following objections to it should be kept in view:

(1) The amount which would be yielded by an income tax is uncertain and will make the preparation of the budget more difficult.

(2) The experience of the public with the Federal income tax, on account of its complications, has been so unsatisfactory that a State income tax would probably not be generally approved.

(3) The administration of a State income tax would be an expensive matter, calling for a large number of additional jobholders.

(4) Our present system of taxing places the public burden upon accumulated wealth, i. e., indirectly upon what may be called unearned income or, in other words, only upon prior accumulations in excess of current needs and expenditures. The direct income tax places the burden also upon current earnings as, for example, those of the skilled workmen and the clerical and professional groups, and thus directly increases the difficulty of making a mere living.

(5) At the present time the burden is distributed between the owners of real estate and the owners of personal property. The proposed income tax would tax the owners of real estate a second time and, therefore, if the income tax is substituted for the tax on personal property, will result merely in shifting to real estate an additional portion of the burden which should be carried by personal property.

(6) If it were possible to place a limit upon public expenditures, the amount which an income tax would

yield in excess of the present personal property tax might be used for the reduction of real estate taxation and in this way obviate part of the objection of (5). Under existing conditions, however, the probability is that the money yielded by the direct income tax in excess of the personal property tax will present an irresistible temptation to increased public expenditures, so that the total burden upon the real estate holder as a class and upon the public as a class will be increased rather than decreased.

Our Commission has reached no final conclusion on this important subject, but believes that it is proper that the State income tax should now be opened to public discussion and that its friends and opponents should be invited to determine the willingness or unwillingness of our people to have such a tax made part of their revenue system.

IX.

No Royal Road to Reduction of Tax Burden.

Our Commission feels that it would not serve any practical purpose if it simply exercised itself in endeavoring to find new ways of increasing tax revenue, which would have the effect of adding to the burdens which our people are now carrying.

It is hardly necessary to say that there seems to be no royal road to the reduction of the burdens of taxation. It seems reasonably certain that there are only three ways of reducing these burdens:

(1) By diminishing the amount of tax revenue required by economical business management of public affairs, or by the reduction of public activities requiring the expenditure of money.

(2) By adding to the taxable basis through additions to the wealth and prosperity of a community.

(3) By adding to the uniformity of taxing methods, so that every taxpayer pays his proportion of public expenses in conformity with his means and ability.

Real estate cannot escape and has long carried and will probably always carry, and perhaps ought to carry, a large part of the taxing burden.

Personal property, tangible and intangible, presents the difficult problem. It is possibly true that under any system of direct taxation now in existence it can and does escape some part of its obligation. It is towards the solution of this problem that the advocates of the State income tax are directing their efforts.

X.

Model System of State Taxation Proposed by National Tax Association.

Our Commission has before it, in the last annual report of the Minnesota Tax Commission, the second imprint, under date of January, 1923, of the preliminary report of a Committee appointed by the National Tax Association to prepare a plan of a model system of State and local taxation, from which we extract the following summary of the conditions and requirements which the Committee of the National Tax Association states it has constantly in mind in endeavoring to frame its model system:

The proposed system must yield the large revenues which our state and local governments require at the present time.

It must be practicable from an administrative standpoint, that is, it must be capable of being administered by such means and agen-

cies as the states have at their command and can reasonably be expected to provide.

It must be adapted to a country with a federal form of government, and to this end must reconcile the diverse claims of our several states, which now conflict at many points thereby producing unjust multiple taxation and disregard of interstate comity.

It must respect existing constitutional limitations, federal and state, or else point to practicable methods of constitutional amendment.

It must represent as nearly as possible a general consensus of opinion.

It must not propose measures wholly foreign to American experience and contrary to the ideas of the American people.

These conditions and requirements can well be considered in any efforts which are made to revise the taxing system of the State of Maryland, whether or not it is deemed wise to follow in whole or in part the specific suggestions of the "Model System."

XI.

Some Details of the Model System.

The preliminary report of the "Model System", above referred to, is, of course, a lengthy one and enters elaborately into details and arguments which cannot be here repeated; but a brief summary of the main suggestions will be interesting. Generally speaking, the model system confines itself to a discussion of what it regards as the four basic sources of taxing revenue, viz:

A. The assessment and taxation of real estate.

- B. The assessment and taxation of tangible personal property.
- C. The assessment and taxation of net income of individuals domiciled in the State.
- D. A tax on the right to conduct business, whether incorporated or unincorporated.

The report does not undertake to make suggestions in regard to methods now adopted by the several States for the taxation of public utility corporations or banking institutions through *ad valorem* taxes; the taxation of their gross receipts, or the taxation of deposits—nor does it attempt to deal with special license and privilege taxes, although it calls attention to the necessity of adjustments in regard to the tangible property of public utility corporations and banking institutions, and to the necessity of adjusting license and special privilege taxes to the “business tax” in order to avoid double taxation.

The following is the briefest possible summary of its suggestions in regard to the four forms of taxation above referred to:

A.

REAL ESTATE.

The report suggests that real estate should be assessed and taxed—substantially by methods which are now a part of the Maryland system—in and for the use of the political unit in which the real estate lies; and that the revenue from such taxation should be applied to the governmental expenses of the political unit in which the real estate is situated.

B.

PERSONAL PROPERTY.

The report does not go as far as the States of Wisconsin and New York in advocating the entire abolition of all direct taxes on tangible and intangible personal property; but it advocates the entire abolition of all direct taxation on intangible property of every kind, including stocks, bonds, evidences of debt, etc., on the assumption that the tax on the **income** from intangible personal property will more fairly reflect the tax obligations of the owner.

While the report makes no great point of the taxation of tangible personal property, it advocates the taxation of tangible personal property wherever it is located in the State, for the use of the political unit in which it is located, at a very much reduced tax rate, not exceeding one dollar (\$1.00) per one hundred dollars (\$100) of assessed value, with an exemption of perhaps two hundred dollars (\$200) to the individual owning such tangible personal property.

C.

TAX ON NET INCOMES OF INDIVIDUALS.

The report advocates a State tax on the net income from all sources received by the individuals domiciled in the State. The rates, exemptions, etc., proposed by the **Model System** will be found under paragraph VI, *supra*.

The report proposes that the revenue received from such a State income tax shall be divided between the State and the political units of the State in the manner which is most fairly adjusted to local conditions; and suggests as two methods of such division:

(a) The method now adopted in the State of New York of apportioning it between the State and the political units, viz: One-half to the State for State purposes and one-half to the political units in the proportions that the assessed value of the real estate located in a political unit bears to the total assessed value of all the real estate located within the State; and

(b) Apportioning a fixed percentage to the State for State purposes and apportioning the remainder to the political units in conformity to the amounts paid by individuals domiciled in the respective political units, i. e., in proportion to the sources of the revenue from income taxation.

The report earnestly insists upon the assessment and collection of the State income tax by a central State authority, preferably under the direction of the central State Tax Commission, if such a Commission exists, as it does in the State of Maryland.

D.

TAX ON BUSINESS.

The report dwells long and earnestly upon the importance of placing as little burden as possible upon the unrestrained operation of incorporated and unincorporated business and upon the propriety of avoiding as far as possible the duplication of taxation by taxing both individual incomes and the business which produces them; but thinks it is necessary to recognize the fact that it seems to be everywhere thought that the right to conduct a business, incorporated or unincorporated, is a proper subject of a moderate tax which now takes the form of special license taxes. It proposes that there shall be a moderate tax on business, incorporated or unincorporated, which shall be measured

in most cases by the net income of the business; but calls attention to the fact that it may be fair to classify business, so that proper consideration may be given to the public protection which the tax is supposed to represent, because of the different nature and character of the business conducted.

All of the above subjects are discussed at length in the report referred to. Our Commission wishes to make it clear again that it is not at present prepared to express any opinion of its own in regard to these suggestions; but the preliminary report of this Committee of the National Tax Association has been made by men of large experience and is the result of many years of study and discussion by the National Tax Association, which, as your Excellency knows, includes distinguished and practical tax experts and members of State Tax Commissions from practically every State in the Union. Its findings, therefore, cannot escape the respectful consideration either of our Commission or of the public for whom we are acting, and we regard it as our duty to present these findings to your Excellency, and through you to the people of the State of Maryland, for your and their attention also.

XII.

Amount of Individual Income of Residents of the State of Maryland.

The establishment and operation of the National income tax is producing reliable statistics in regard to the income of residents of the State of Maryland. The "Statistics of Income" issued by the Treasury Department gives the following amount of personal returns of the net income reported for the calendar years 1916, 1917, 1918 and 1919 and shows that the personal returns

of net income from the State of Maryland were as follows:

1916.....	\$121,009,054
1917.....	253,433,289
1918.....	303,421,092
1919.....	398,672,772

The returns for the year 1916 include only net incomes of three thousand dollars (\$3,000) and over. The returns for 1917, 1918 and 1919 include only net incomes of one thousand dollars (\$1,000) and over.

We have also before us "Distribution of Income by States in 1919," by Oswald W. Knauth, of the staff of the National Bureau of Economic Research which estimates the total income of all individuals of the United States at sixty-six billion, two hundred and fifty-two million, six hundred and one thousand dollars (\$66,252,601,000), or a per capita income of six hundred and twenty-seven dollars (\$627). This authority estimates the total number of persons gainfully employed on January 1, 1920, in the entire United States, at forty-one million, six hundred and nine thousand, one hundred and ninety-two (41,609,192); and an average income per person gainfully employed in the entire United States, at one thousand five hundred and ninety-two dollars (\$1,592).

The total income of residents of the State of Maryland for the same period is given at nine hundred and ninety-nine million, five hundred and twenty-nine thousand dollars (\$999,529,000), or a per capita income of six hundred and eighty-nine dollars (\$689). The number of persons gainfully employed on January 1, 1920, in the State of Maryland is given at six hundred and three thousand four hundred and seventy-three (603,473); and the average income per person gainfully

employed in the State of Maryland is given at one thousand six hundred and fifty-six dollars (\$1,656).

The same authority gives the total non-agricultural income (i. e., excluding farmers and farm laborers), including tax exempt income, and adjusted for under-reporting, from individuals resident in the State of Maryland in the year 1919, whose annual income exceeds two thousand dollars (\$2,000), as three hundred and eighty-seven million, nine hundred and seven thousand dollars (\$387,907,000). The same authority estimates the farmers income in Maryland for 1919 at five million, two hundred and eighty thousand dollars (\$5,280,000).

XIII.

Probable Necessity for Amendments to the Constitution of the State.

If the State of Maryland did finally conclude to adopt a State income tax and make any radical changes in the taxation of real or personal estate, it probably would be both wise and necessary to provide for such changes by amendments to the Constitution of the State. As such amendments must be submitted for ratification to the electorate a public opportunity would be afforded for obtaining either the approval or disapproval of the people of the State before the actual passage by the General Assembly of any legislation making radical changes in our present taxing system; and it is possible that in our final report we will propose the amendments to the Constitution of this State which would make such changes possible, if the people of the State voted that they were desired. It would then remain for the Executive and Legislative Departments of the State

Government to determine whether the Tax Revision Commission shall be instructed to continue its work, if its members are willing to continue to serve, with an adequate appropriation for its expenses; or whether a new Commission shall be appointed, or whether the further study and investigation of the subject through the medium of a Commission shall be abandoned or postponed.

By order of the Tax Revision Commission.

Respectfully submitted,

FRANCIS KING CAREY,
Chairman.

